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RUEHLP/AMEMBASSY LA PAZ MAY 1046  
RUEHPE/AMEMBASSY LIMA PRIORITY 2589  
RUEHME/AMEMBASSY MEXICO PRIORITY 1789  
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 3538

C O N F I D E N T I A L QUITO 000415

SIPDIS

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TAGS: [ECPS](#) [ECON](#) [EINV](#) [EC](#)

SUBJECT: ECUADOR APPROVES CONTENTIOUS MOBILE CONCESSION  
CONTRACT WITH AMERICA MOVIL

REF: A. QUITO 346

[1](#)B. QUITO 351

[1](#)C. QUITO 365

Classified By: Classified by DCM Jefferson Brown; Reasons 1.4 (b) and (d).

[1](#)1. (SBU) Summary: After a week of tense brinksmanship, the Government of Ecuador has come to agreement with America Movil subsidiary and majority market share holder Porta, to renew its mobile phone concession for 15 years. While the company has been silent, the press has speculated it will pay near the amount demanded by the GOE, reportedly \$480 million.  
End Summary.

[1](#)2. (U) On April 29, the GOE rejected Porta's third offer to renew its mobile concession (reportedly \$307 million), and asserted that it would sever its relationship with Porta. The country's Telecommunications Secretariat, Senatel, announced that it would begin plans on May 5 to assume control of Porta's technical network when its concession expires in August. Conatel, the national advisory council that oversees Senatel, said it would offer a new tender within the next few months, with an eye to having some public participation in the new operator.

[1](#)3. (U) On May 5, Daniel Hajj, president of America Movil, a Telmex subsidiary (Hajj is the son-in-law of Telmex owner Carlos Slim) arrived from Mexico to meet with President Correa. Hajj presented a fourth offer, which Correa accepted and characterized as "convenient to the interests of Ecuador." The press reported on May 7 that Porta agreed to pay \$480 million; Senatel announced late on May 6 that the government had "achieved \$700 million" from the two private mobile concessions.

[1](#)4. (SBU) This, and other press reports indicate that the amount paid by Movistar (a subsidiary of Spain's Telefonica) for its concession in mid-April was much lower than previously hinted by the company (reftel a); namely that it paid \$206 million to renew the concession (instead of \$480 m), but with the promise to invest another \$400 million over the next 15 years. Given the lower price paid by Movistar, Porta claimed the GOE was asking it to pay more for an "identical concession." Senatel responded that Porta's concession clearly holds more market share and that its relationship with the government is different (likely a reference to the GOE's displeasure with Porta over back taxes of \$153 million). Senatel clarified that both concession contracts are entirely new contracts, and not just renewals.

[1](#)5. (C) Prior to this latest round of brinkmanship, Porta contacts told the Embassy Commercial Office that they feared

the company would be charged more than Movistar for the same concession, even though the company uses the same bandwidth and provides the same services. These contacts pointed out that while they hold greater market share, this does not necessarily yield greater revenue, since a majority of their clients purchase pre-paid services, which are notably less profitable than the post-paid services that make up most of Movistar's business. They also said, however, that to drop the concession entirely would be more costly for Porta than paying a high price to renew it, given the fact that it would probably be difficult to sell their investment if they were to leave. A senior Porta executive told Guayaquil Consul General that Porta was "satisfied" with the final agreement, as it allows Porta to pay half of the concession fee at the back-end of the concession and it provides Porta with additional spectrum to offer high-margin enhanced services.

¶16. (C) Comment: The relationship between Porta and the GOE over the last year has been tense, certainly more so than the GOE's relations with Movistar. This in part reflects a difference of philosophy over how to price the concession and whether a company with a larger market share should pay a premium after building up its business. However, it also reflects Porta's aggressive use of deductions in its tax practices, record profits this year, and several notable service failures.

¶17. (C) Comment, continued: In the end the two sides backed down from brinkmanship and reached an agreement. These negotiations, combined with the government's decision to suspend contract negotiations with oil and mining companies (reftels b and c), reflect the uneven, unpredictable, and

skeptical view that the government has towards companies operating in strategic sectors. Clearly the government wants to obtain more revenues for the state from these concessions, and while it pushes for those revenues in a clumsy manner, it appears that (at least thus far) it prefers that the private companies continue to operate the concessions rather than have the government take them over. End comment.  
Jewell